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ISU, IEFC Issue State Income Growth and Tax Projections

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ISU, IEFC Issue State Income Growth and Tax Projections

—David Swenson, Department of Economics

Depressed agricultural commodity prices have led to concern about widespread possible economic impacts in Iowa because the state's economy is strongly linked to agricultural production. This article compares the income and tax estimates produced by the Iowa State University (ISU) Department of Economics and the Iowa Economic Forecasting Council (IEFC).

Earlier economic impacts were analyzed by the ISU Department of Economics, which factored in worst-case estimates if the agricultural sector were to realize significant income losses. Those impacts have

been modified to account for a more realistic agricultural production scenario by allocating the losses to household spending and discretionary producer spending.

This article discusses the quarterly estimates of state personal income change, sales taxes, personal income taxes, and corporation income taxes through the 2000 fiscal year. There are two sets of estimates for income and taxes. One set of estimates is derived directly from the income estimates produced by the IEFC at the University of Iowa's Institute for Economic Research. The ISU Department of Economics

produces the second set of estimates, derived from the state's historical relationship to national gross domestic product.

While the IEFC acknowledges slower economic growth for the state as a whole, it is uncertain whether this slowdown is significantly attributable to expected declines in farm earnings or more so to overall sluggishness in the national economy. In an October 1998 report by ISU on possible agricultural and statewide income losses, it was estimated that the total income effect of reduced agricultural sales could lead to \$685 million in lost income for all Iowans.

Meet the Staff

Bruce Babcock, a professor in the Economics department, is the new director of the Center for Agricultural and Rural Development (CARD). His appointment was effective November 16, 1998.

"One of my goals as director is to make sure that policymakers and others who can potentially benefit from CARD analysis understand the analytical capabilities of CARD, what CARD is doing, and that CARD is ready and willing to undertake new projects," he said.

Babcock's goals for CARD include integrating the existing research programs of the new division heads—Catherine Kling, professor of economics, and John Beghin, associate professor of economics—into CARD. He also plans to establish new areas of research in financial management in agricultural policy, rural development policy, and science and technology policy.

Before being named director, Babcock was head of CARD's Resource and Environmental Policy Division, which assesses regional, national and international policies affecting the environment. He will continue work in this area with

research looking at ways to increase the environmental performance of government policies.

Another area of research is the potential contribution of midwestern agricultural soils as a "carbon sink." The objective of this research, Babcock said, "is to determine how the agricultural sector can contribute and benefit if a carbon market comes into existence. A nice side benefit of sequestering carbon through conservation tillage is that the long-term productivity of soil is enhanced by increasing soil organic material."

The main focus of Babcock's future research, however, will be on risk management policy. This includes identifying both the government's and private sector's role in providing a safety net to those in agriculture.

"We are looking for ways to maximize the efficiency of federal funds," he said. "This potentially could come in the form of risk management policies, as opposed to lump-sum transition payments, ad-hoc disaster payments, or traditional price support payments."

Babcock received a bachelor's degree in economics of resource use



Bruce Babcock, Director of CARD

and a master's degree in agricultural economics, both from the University of California at Davis. He received a doctorate from the University of California at Berkeley in agricultural and resource economics.

Babcock is married to wife Ali, and they have four sons, ages 4 to 12. He enjoys coaching and playing soccer, running, and water skiing. ♦

Figure 1. IEFEC and ISU Income Growth Projections

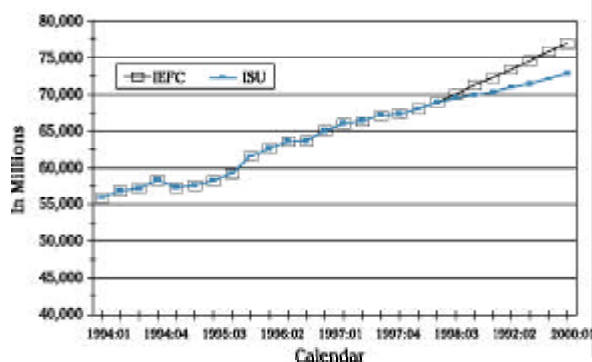
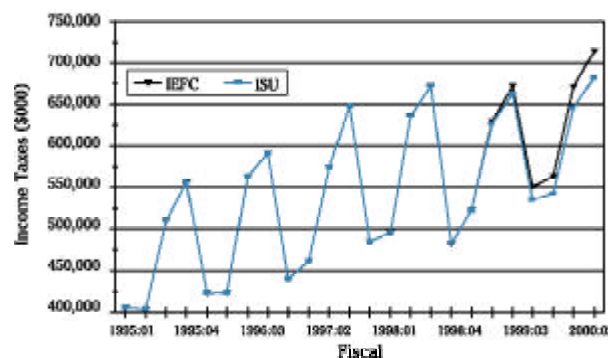


Figure 2. IEFEC and ISU Income Tax Projections



Subsequent to that report, federal legislation was passed that is designed to minimize much of those losses to the producer. Additional aid for hog producers has also been proposed, which will help offset income losses.

Two different methods were used to produce estimates of income growth (Figure 1). The IEFEC estimates predict income growth through the end of the 1999 fiscal year at an annual rate of 6.25 percent. The ISU method estimates income growth by the end of fiscal year 1999 to amount to 3.33 percent. For the 2000 fiscal year, IEFEC estimates personal income growth at 6.32 percent and ISU estimates a 3.55 percent growth.

For the 1999 fiscal year, IEFEC estimates sales taxes to grow to \$1.379 billion, an 8 percent growth over the previous year. Growth for the following fiscal year 2000 is estimated at 4.6 percent. ISU estimates sales tax at the end of the 1999 year to be 7.7 percent higher than in 1998, and sees only 1.79 percent growth in the year 2000.

Both institutions estimate relatively modest growth in personal income taxes in 1999 versus the fiscal year 1998 (Figure 2). The IEFEC method anticipates that personal income taxes will grow by 8.3 percent by fiscal year 2000, and the ISU methods estimate growth to be 4.7 percent.

Neither institution anticipates much numerical growth in corporation income taxes for fiscal year 1999. However, for the fiscal year 2000, IEFEC projects 7 percent growth, and ISU projects 3.3 percent growth.

IOWA STATE ANALYSIS OF PROJECTIONS

State policymakers might be attentive to major reports of changes in consumer spending. However, so long as unemployment numbers remain low and earnings are stable, major changes in sales and income taxes should not be anticipated. Were unemployment to rise or statewide personal or industrial consumption to change markedly, policymakers might reconsider the

likelihood that the IEFEC and ISU projections will be realized.

In addition, if current reductions in agricultural earnings persist, analysts might wish to revisit these figures. Low grain prices coupled with low livestock prices foretell stress on the agricultural sector, but not necessarily on the processing or consuming sectors. Also, in the long run, consumer welfare gains attributable to lower food prices can stimulate additional nonfood purchases, which in turn can boost the state's economic fortunes and mask, for a time, the losses realized in the agricultural sectors.

Finally, the near and longer term performance of the national economy will be an important factor, notwithstanding the fortunes of the agricultural sectors. If the national economy loses momentum, significant revisions in income and revenue growth will be necessary. ♦

Iowa Ag Review is published by the Food and Agricultural Policy Research Institute (**FAPRI**) at Iowa State University, a program of the Center for Agricultural and Rural Development (**CARD**). FAPRI is organized cooperatively by CARD at Iowa State University and the Center for National Food and Agricultural Policy (CNFAP) at the University of Missouri-Columbia. It provides economic analysis for policymakers and others interested in the agricultural economy. Analysis that has been conducted jointly with the University of Missouri is identified here as FAPRI analysis. This publication presents summarized results that emphasize the Iowa implications of ongoing agricultural policy analysis, analysis of the near-term agricultural situation, and discussion of new agricultural policies currently under consideration.

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